



INCENTIVES AND FINANCING

TAX INCENTIVES



STATE

Idahoans can reduce their tax bills when they install insulation or alternative energy systems in their homes. If your home was built prior to 1976, you can claim a tax deduction from your taxable income for the total cost of insulation, thermal or storm doors and windows, and caulking and weather stripping for your principal residence. You can also deduct your costs for the installation of alternative energy devices serving your place of residence. Devices include any system or mechanism or series of mechanisms using solar, wind, or geothermal. Under limited circumstances, an alternative energy device also includes either a natural gas heating unit, propane heating unit, or a wood or pellet-burning stove. *You can find out more by calling the Idaho State Tax Commission at 1-800-972-7660. When calling from Boise call 334-7660. For hearing-impaired callers phone (ID) 1-800-377-3529.*

FEDERAL

Investment Tax Credit (Commercial)

The 10% investment tax credit for commercial property, otherwise known as the business energy tax credit, was permanently extended as part of the passage of the Energy Policy Act of 1992. The credit is for commercial entities that invest in or purchase qualified solar energy property. Solar energy property is defined as equipment that uses solar energy to generate electricity, to heat or cool (or provide hot water for use in) a structure, or to provide solar process heat. This includes storage devices, power-conditioning equipment,

transfer equipment, and related parts, and equipment up to but not including the stage that transmits or uses electricity. Equipment that uses both solar and non-solar energy, such as pipes and hot water tanks, can also qualify. The solar energy property must be installed and operational in the year in which the credit is first taken. You will need Form 3486 (Investment Credit), and possibly Form 3800 (General Business Credit) and their corresponding instruction forms. *Commercial entities are encouraged to seek professional tax advice when taking this credit.*

Accelerated Depreciation (Commercial)

The federal government also offers a 5-year accelerated depreciation for all solar energy equipment. Any commercial entity that invests in or purchases qualified solar energy property may use the accelerated depreciation schedule. The Modified Accelerated Cost Recovery System (MACRS) 5-year depreciation schedule uses a 200% declining-balance method. Without this legal provision for solar equipment, depreciation for such equipment would be done over the standard 20-year period. Note that taxpayers who take advantage of the Federal Commercial Investment Tax Credit for solar equipment should use 95% of the original value of the solar equipment as the basis for depreciation, not 90%. If you do not take the investment tax credit, you should use the full 100 percent of the value as the basis for depreciation. *Commercial entities are encouraged to seek professional tax advice when taking this credit.*



Financing has long been a barrier to getting new construction mortgage loans for properties with independent power systems (off-grid). There are usually no specific prohibitions against making loans on homes without public power, but conventional lenders usually want to demonstrate that properties are typical of other residential properties in the area, and that comparables are provided to support the value and marketability of the property.

If your home is or will be the only off-grid home in the area or one of only a few new homes, you may have a problem with getting a “conforming” loan. In this case you will need to work with “portfolio” lenders (lenders who do not sell their loans to the secondary marketplace) and private mortgage lenders. These lenders have more flexibility in determining what conforms to their standards than the secondary market requirements.

GMAC Mortgage, one of the largest mortgage companies in America, has been a leader in providing long-term, low-cost financing for solar energy systems. Other conventional lenders are also starting to provide “off-grid home mortgage” (OHM) loans. Nationwide lenders currently include Bank of America, Countrywide, and North American Mortgage Company.

The Renewable Energy Development Institute is in the process of compiling a Loan Hotline. Call 1-888-646-7334 or visit their web site at www.redinet.org. They are also looking for any information you can

provide to make it easier for others to finance their off-grid home.

If the home mortgage loan is not your problem, your best bet is with the Idaho Department of Water Resources Energy Division Loan Program. The Idaho Energy Division has low-interest loans to finance renewable energy installations. These must be the least-cost alternative so grid-connected installations near a utility line do not qualify. Qualifiers must also have acceptable credit ratings. Debt-to-income ratios are similar to those required for conventional loans.





Idaho Energy Division Loan Program

The Idaho Energy Division has low-interest loans to finance the development of energy conservation or energy-generation projects that use renewable energy resources. Renewable energy resources include solar energy, wind power, geothermal, hydropower, and biomass energy systems. The program provides residential loans from \$1,000 to \$10,000, and commercial loans from \$1,000 to \$100,000. In the other sectors, there is no minimum, and loans may go up to a maximum of \$100,000. Projects must be conducted within the state of Idaho and should use existing, reliable technologies. For existing homes or business, the savings from reduced usage of conventional fuels must be sufficient to pay for the projects installation cost (e.g., simple payback of 10 years or less). For new projects, use of a renewable energy resource must be the least-cost alternative. Renewable energy projects that are intended to sell the energy generated or the commodity produced are not eligible. Other restrictions may also apply. You can find out more by calling the Energy Division at 1-800-334-

Since President Clinton's announcement of the Million Solar Roof Initiative, numerous brochures, pamphlets, and Web sites have been developed describing federal financing programs. Essentially all describe federal loan programs offered by Fannie Mae, HUD, VA, Freddie Mac and others. These are energy efficiency loan programs and have limited use for Idaho properties with independent power systems. Conforming mortgage loans generally require the "typical for the area" and "marketable" requirements mentioned previously. Current federal programs that may be useful for financing solar energy systems in Idaho are described below.

Federal Energy Management Program (FEMP) - The U.S. Department of Energy's Federal Energy Management Program (FEMP) helps federal agencies take advantage of the benefits offered by renewable technologies and apply the renewable provisions of the Energy Policy Act (EPA) and Executive Order 12902. FEMP supports federal agencies with Energy Savings Performance Contracting (ESPC) as well as assisting agencies to take advantage of utility incentives for energy conservation projects. Through an ESPC, an agency can pay for energy efficiency projects over a term (up to 25 years) using the money saved by the energy-efficient measures installed. FEMP is currently working with several federal agencies to develop ESPCs for renewable energy projects. EPA specifically allows agencies to enter into ESPC contracts. For more information contact the FEMP Help Desk at (800) DOE-EREC (363-3732) or <http://www.eren.doe.gov/femp>.

Department of Agriculture/Rural Utility Service (RUS) - The RUS provides loans to Rural Electric Cooperatives that can be used for customer-sited on or off-grid renewable systems. The RUS can make loans for up to 30 years at below-market interest rates. For additional information contact Daniel Bowers at (208) 424-1740 (Boise).

For more information on federal programs visit: www.eren.doe.gov/millionroofs